

# **The New Marketing Paradigm**

**Adapted from a conference by  
Philip Kotler**

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# Overview

# The Evolution of Marketing

## 1980s: Relationship Marketing

- Customer relationship in the long run
- Market where various offerings appear
- Relationships portfolio to be cultivated
- Attract, develop and retain profitable customers
- Observe customers and learn adaptively

## 2000s: Collaborative Marketing

- Co-created experiences
- Market is forum where value is co-created through dialogue
- Prosumers-active participants in value co-creation
- Engage customers in defining and co-creating unique value
- Active dialogue with customers and communities

Adapted from Prahalad and Ramaswamy 2004

# Two Models of Management

## Profit-based management

- Reduce costs
- Reduce compensation
- Replace people with technology
- Pricing for maximum value
- Sell more products
- Acquire lots of customers

## Loyalty-based management

- Invest in marketing assets
- Give superior compensation
- Leverage people with technology
- Price to reward customers
- Deepen customer value
- Acquire customers selectively

Source: Frederick Reichheld, The Loyalty Effect

# **Increasing Pressure for Marketing Accountability**

- **Marketing has become a one P discipline = selling.**
- **Marketing involves a great deal of waste.**
  - **Direct mail campaigns with a 1% response rate.**
  - **High rate of new product failure.**
- **Marketing costs are high and rising**
- **Marketing does not create major new ideas.**
- **Marketing is too involved in short-term thinking.**
- **Marketing doesn't focus on its real assets.**
  - **Brands, customers, service quality, stakeholder relationships, intellectual capital, corporate reputation**

## **Responding to** **Low Margins & Economic Slowdown**

- **Commoditization and rapid imitation leading to shorter product life cycles.**
- **Competition of cheaper brands from China and elsewhere.**
- **Rising selling and promotion costs and decreasing sales effectiveness.**
- **Shrinking margins.**
- **Proliferation of sales and media channels.**
- **Power shifting to giant retailers who are demanding lower prices.**
- **Recession: lower incomes and purchasing power.**
- **Mergers, large company bankruptcies.**

## **Marketing Strategies Are Showing Diminishing Returns**

- **Product differentiation is harder to achieve.**
- **Acquisitions and mergers have as many failures as successes.**
- **Internationalization is offering less opportunities because either the good markets are overcrowded or the poor markets have no money**
- **Price cutting doesn't work because competitors will match.**
- **Pricing raising doesn't work since there isn't enough differentiation to support it.**
- **Cost cutting has eliminated much of the fat but is now risking cutting the muscles.**

# New Paradigm



## Retinking around:

- **The customer**
- **The strategy**
- **The technology**

# Holistic Thinking

- Marketing does the marketing- >everyone does the marketing.
- Organizing by product units- >organizing by customer segments.
- Making everything- >outsourcing more goods and services.
- Using many suppliers- >working with fewer suppliers.
- Emphasizing tangible assets- >emphasizing intangible assets.
- Building brands through advertising - >building brands through integrated communications.

## Holistic thinking ...

<u>From</u>	<u>To</u>
■ Attracting customers to stores	■ Making products available on-line
■ Selling to everyone	■ Selling to target markets
■ Focusing on profitable transactions	■ Focusing on customer lifetime value *
■ Focusing on market share	■ Focusing on customer share
■ Being local	■ Being “glocal”
■ Focusing on the financial scorecard	■ Focusing on the marketing scorecard *
■ Focusing on shareholders	■ Focusing on stakeholders

•**Focusing on customer lifetime value / marketing scorecard:** Read HMM website Article “Customer-centric organization”

•**Focusing on stakeholders** (as for customers): The focus is too often on the “end user”. This ignores the many stakeholders who have to gain or loose from the marketing process (those who transport, repair, recycle, legislate, finance, advocate... the product or service.

## **Focus on Building Long-Run Marketing Assets**

- **Brands and brand equity**
- **Customers and customer equity**
- **Service quality**
- **Stakeholder relationships**
- **Intellectual knowledge**
- **Corporate reputation**

# The Customer

## **Building Customer Equity \***

- **How customer centered is your company?  
How do you measure this?**
- **Does your company need to be more customer-centered? To all customers or only the more important customers?**
- **How can you go about becoming more customer centered?**
- **How much would this cost you in new technology and training?**
- **How much would you gain as a result of becoming more customer centered?**

\* **Read:** HMM website Article “Customer-centric organization”

## **Building Customer Equity...**

- **Reduce the rate of defection.**
- **Increase the longevity of the relationship.**
- **Enhance the growth potential of each customer through cross-selling and up-selling.**
- **Make low-profit customers more profitable or terminate them.**
- **Focus disproportionate effort on high value customers.**

## Examples of Collaborative Marketing

- **P&G's website:**
  - *We're Listening* page
  - *Share Your Thoughts* page
  - *Advisory Feedback* sessions
- **GM website *Auto Choice Advisory***
- **Cisco runs *Customer Forums* to improve its offerings.**



# Design the Marketing From the Customer-Back

- **The four Ps - seller oriented.**
- **The 4As - buyer oriented\***
  - **Awareness (A1)**
  - **Acceptability (A2)**
  - **Affordability (A3)**
  - **Accessibility (A4)**

Marketing must be run as a set of value finding, creation, and delivery processes, not 4P functions.

The four Ps are seller oriented.

\* Source: Jagdish Sheth <http://www.jagsheth.net/index.html>

## Components of Customer Equity \*

- **Customer equity is driven by:**
  - **Value equity**
  - **Brand equity**
  - **Relationship equity.**
  
- **Companies must decide which driver(s) underlie each equity.**

\*Source: Roland T. Rust, Valerie A. Zeithaml, and Katherine A. Lemon, *Driving Customer Equity* (New York Free Press 2000).

# Widened Vision

## Visualize a Larger Market

- **Nike: Leader in the sports market rather than the shoe and clothing market**
- **Coca Cola: 35 % of soft drink market or 3% of total beverage market?**
- **Citicorp: Large share of banking but small share of total financial market**
- **Taco Bell: From selling food in stores to “feeding people everywhere”**

Widen your Vision:

2. The late Roberto Goizueta told his company that while Coca Cola had a 35 percent share of the soft drink market, it had only a 3 percent share of the total beverage market (including the fast growing “Energy drinks segment”).
3. Citicorp realized that it only had a small share of the total financial market which includes much more than banking (insurance, finance & retirement plan, etc.)
4. Taco Bell went from selling food in stores to “feeding people everywhere” including kiosks, convenience stores, airports and high schools.

# Focused Offering

# Delivering Outcomes, Not Products

Company	Product focus	Solutions focus
BP Nutrition-Hendrix	Animal feed	Animal weight gain
Scania	Trucks	Guaranteed uptime
Akzo Nobel	Gallons of paint	Well painted cars

# The 3 V's \*

## Focused Offering to the Target Market

- *Value customers*
- *Value proposition*
- *Value network*

**The 3 V's** source: Dr. Nirmalya Kumar

[http://forum.london.edu/lbsbiogs.nsf/\(httpBiographiesByID\)/D6AECF5D0BA0A6D180256D8300525CF9?OpenDocument](http://forum.london.edu/lbsbiogs.nsf/(httpBiographiesByID)/D6AECF5D0BA0A6D180256D8300525CF9?OpenDocument)

## Focused Offering to the Target Market

- Value customers:** Which customer segment(s) do we want to serve?
- Value proposition:** Can we create a value proposition that delivers superior value through dramatically higher benefits or lower costs?
- Value network:** Can we run a better network or radically redefine the value delivery system for the industry such as Dell and IKEA have done?

## Five Winning Strategies

- **Cost reduction: (IKEA, Southwest Airlines, Wal-Mart, Enterprise Rent-a-Car).**
- **Improved customer experience (Starbucks, Harley Davidson)**
- **Innovative business model (Barnes & Noble, Charles Schwab, FedEx, Sony).**
- **Improved product quality (P&G, Toyota).**
- **Niching: (Progressive Insurance, Tetra)**

### **Ikea**

*Objective:* Win by offering good quality furniture at the lowest price

*Strategy 1:* Reduce all the important costs of doing business

*Tactics:*

- Reduce shipping costs by developing knock-down furniture
- Get customers to locate and load their own purchases
- Get customers to carry home their purchases
- Don't advertise

*Strategy 2:* Make the store an attractive destination

*Tactics:*

- Add a good value restaurant
- Add a day-care center

*Strategy 3:* Create a membership program

*Tactics:*

- Send regular catalogs to members
- Set up discounts below normal price for members

### **Southwest Airlines**

*Objective:* Win by charging the lowest prices in order to attract not only passengers of other airlines but also car drivers

*Strategy:* Bring down all critical costs

*Tactics:*

- Develop short-distance routes connecting high traffic inter-cities
- Use only one airplane type to simplify training and inventory
- Don't serve food and therefore reduce cabin crew size
- Don't use travel agents; sell tickets directly
- Don't offer to transfer luggage
- Don't offer higher classes of service

### **Wal-Mart**

*Objective:* Win by owning lowest price end of the market.

*Strategy:* Find ways to lower all important costs of doing business.

*Tactics:*

- Build the stores at the lowest cost by causing landowners and towns to compete by giveaways
- Maintain the lowest inventories by developing a real time information system to order only for restocking
- Pay low wages by offering other benefits to attract workers and keep out unions
- Carry fewer brands and extract best deals from these brands based on volume; after a brand depends on us, press them for reduced prices.
- Don't spend money in expensive advertising

### **Enterprise Rent-a-Car**

*Objective:* Grow volume by renting cars at the lowest cost

*Strategy:* Reduce the costs of running a car rental firm

*Tactics:*

- Stay away from high rentals in airports
- Open in low cost areas near automobile dealers and good traffic
- Get close to car repair companies

**Starbucks – Read:** Articles: “ Selling the American bean ” »»

[http://www.businessweek.com/innovate/content/dec2005/id20051201\\_506349.htm?chan=innovation\\_branding\\_brand+profiles](http://www.businessweek.com/innovate/content/dec2005/id20051201_506349.htm?chan=innovation_branding_brand+profiles)

“ Blend into France ” »»

[http://www.businessweek.com/globalbiz/content/apr2006/gb20060420\\_895395.htm?chan=innovation\\_branding\\_brand+p](http://www.businessweek.com/globalbiz/content/apr2006/gb20060420_895395.htm?chan=innovation_branding_brand+p)



# Branding

## **Building Brand Equity**

- **Marketing is the art of Brand Building**
- **If it's not a Brand it's a Commodity**
  - » **Then Price is everything  
and the Low-Cost producer is the only  
winner !**

## How Important is Branding?

- **NUMMI plant in California: Toyota Corolla and Chevrolet Prizm.**
- **Toyota sold 230,000 Corollas  
Chevrolet sold 52,000 Prizms...**
- **And Toyota's net price is \$650 higher!**

The NUMMI plant in California produces two nearly identical models called the Toyota Corolla and the Chevrolet Prizm.

## Characteristics of Strong Brands

- **Superior delivery of desired benefits**
- **Innovation and relevance for the brand**
- **Credibility, appropriate brand persona / imagery**
- **Consistent voice**
- **Strategically designed and implemented brand hierarchy / portfolio**

- Provides superior delivery of desired benefits.  
(Starbucks, FedEx, Amazon)
- Maintain innovation and relevance for the brand.  
(Gillette, Charles Schwab)
- Establish credibility and create appropriate brand personality and imagery.  
(Apple, Virgin)
- Communicate with a consistent voice.  
(Coca-Cola, Accenture)
- Strategically designed (Read article: Design, Advanced Planning & Product Development by Charles L. Owen. Illinois Institute of Technology).  
Strategically implemented brand hierarchy and portfolio (BMW, The Gap)

## A Brand Must be More Than a Name

- A brand must trigger words or associations (features and benefits).
- A brand should depict a process (McDonald's, Amazon).
- A great brand triggers emotions (Harley-Davidson).
- A great brand represents a *promise of value* (Sony).
- The ultimate brand builders are your *employees* and *operations*, i.e., your performance, not your marketing communications.

## **Don't Overuse Advertising to Build a Brand**

- **Less attention given to ads**
- **Attention but not motivation**
- **Less credibility or believability**
- **Less effectiveness – Higher costs**

People don't pay that much attention to ads anymore (wallpaper) Opinion leaders, blogs and consumer networks are more effective.

Some exceptional TV ads grab attention (awareness) but do not provide motivation.

Advertising doesn't have much credibility or believability (Product window-dressing).

The existence of so much advertising makes advertising less effective. Yet the cost of advertising keeps rising.

# Technology

# Technology-Enabled Marketing

## TEM – Improved quality of mktg. management

- Analytical capacities
- Information technology (IT)
- Marketing data
- Marketing knowledge...

Technology-enabled marketing (TEM) combines *information technology*, *analytical capacities*, *marketing data*, and *marketing knowledge*, made available to one or more marketing decision makers to improve the quality of marketing management.

### TEM Examples

- Royal Bank of Canada: Decision to purchase CRM
- Halifax Bank: Teller suggests financial products
- Capital One: Personalized credit card for everyone
- Tesco supermarkets: Personalized product and services offers
- Kraft foods: Print magazine delivered to 2.1 million Kraft customers tailored to 32 segments.



## **A 5 Step Model for Database Marketing**

- 1. Gather useful data on customers.**
- 2. Classify customers by needs and value to the firm.**
- 3. Prepare business rules that select best prospects.**
- 4. Customize marketing treatments for each prospect in terms of product offers, service mix, media, and channel.**
- 5. Set up accountability procedures.**

### **1. Useful data:**

Read article “Faster, cheaper, deeper use of research” by V. Kumar & P. Whitney.

Illinois Institute of Technology. <http://www.id.iit.edu/141/>

# Precision Marketing

- **Looking at large quantities of historic data**
  - **data mining tools**
  - **mathematical equations: relationships within data**
- **Predictive analytics**
  - **to identify best offers and messages**
  - **to narrow customer segments,**
  - **estimate expected profit of a campaign**
- **Many tactical marketer tasks will be automated**

## Business Intelligence: Data Mining and Data Warehousing

<http://ocw.mit.edu/NR/rdonlyres/Sloan-School-of-Management/15-561Spring-2005/7CB56420-0071-4F7E-BACF-9760E80571EA/0/lecture15.pdf>

Precision marketing is achieved through looking at large quantities of historic data with the help of data mining tools that search for meaningful patterns, and then creating mathematical equations that represent the underlying relationships within the data.

Predictive analytics are used to identify the right offers and right messages to beam through different channels to narrow customer segments, based on the propensity to respond. The expected profit of a campaign can be estimated.

Many tactical marketer tasks will be automated and free up marketers to focus on more strategic decision making.

## **Is New Technology Enough?**

**New Technology + Old Organization =  
Expensive Old Organization**

## Develop Metrics and ROI Measurement

Products	Brands	Channels	Segments	Markets
Relative product quality	Brand awareness	Channel penetration	Customer satisfaction	Market penetration
Perceived product quality	Brand esteem	Channel trust	Average transaction size	Market share
Percent of sales from new products	Brand loyalty	Channel efficiency MS in each channel	Complaints Acquisition costs Retention rate	Sales growth
Product profitability	Brand profitability	Channel profitability	Profitability	Market profitability

**Source:** Nirmalya Kumar

[http://forum.london.edu/lbsbiogs.nsf/\(httpBiographiesByID\)/D6AECF5D0BA0A6D180256D8300525CF9?OpenDocument](http://forum.london.edu/lbsbiogs.nsf/(httpBiographiesByID)/D6AECF5D0BA0A6D180256D8300525CF9?OpenDocument)

# Conclusion

# Earmarks of the New Marketing

1. **Recognize growing customer empowerment.**
2. **Develop focused offering to the target market**
3. **Design marketing from the customer-back.**
4. **Focus on delivering outcomes, not products.**
5. **Draw in the customer to co-create value.**
6. **Use newer ways to reach customers with a message.**
7. **Develop metrics and ROI measurement.**
8. **Develop high-tech marketing.**
9. **Build long term assets.**
10. **View marketing holistically to regain influence in the company.**

# **View Marketing Holistically**

**Marketing must become strategic and drive business strategy.**

**A company needs to take a more holistic view of:**

- **The target customers' activities, lifestyle and social space**
- **The company's channels and supply chain.**
- **The company's communications**
- **The company's stakeholders' interests.**

# Listen to Podcast

## “Innovation @ HP” (Mpeg L3)

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### **Innovation @ HP**

By Sam Deshante – Head of HP Design

- Express HP as a brand (1:27)
- The HP Design Attitude & Process (2:06)
- Reaching beyond the product into the overall Experience (3:50)
- Articulate design in business terms (4:50)
- Mass Personalization (10:33)



**Thanks to Philip Kotler and Partners**

**Any Questions ?**